ANNUAL BUDGET OF

CITY OF MATLOSANA MUNICIPALITY (NW403)

2017/2018 TO 2019/2020
MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK

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PART 1 – ANNUAL BUDGET

1.1 INTRODUCTION (Executive Mayor)

To be submitted in the meeting.

1.2 COUNCIL RECOMMENDATIONS

CITY OF MATLOSANA, PROPOSED MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK (MTREF) 2017 - 2020

RECOMMENDATION

a) That the Budget as set-out in the document for the financial year 2017/18 and indicative allocations for the two outer years 2018/19 and 2019/20 be **approved** in accordance with section 24 of the Municipal Finance Management Act 56 of 2003**:**

National Treasury tables, schedule A indicating operating revenue by source and operating expenditure by vote and capital funding by source document for the 2016/17 and two outer years 2017/18 and 2018/19.

b) That Council approves the 2017/18 tariffs for trading services listed below, as set out in the budget document
- the tariffs for electricity
- the tariffs for the supply of water
- the tariffs for sanitation services
- the tariffs for property rates
- the tariffs for solid waste removal

The increase in electricity tariffs is subject NERSA approval.

c) That Council approves the other tariffs for 2017/18, as set out in the budget document

d) That Council approves the amendments to the following budget related policies:

- CUSTOMER CARE, CREDIT CONTROL & DEBT COLLECTION POLICY
- PROVISION FOR DEBT IMPAIRMENT POLICY
- INVESTMENT & CASH MANAGEMENT POLICY
- IRRECOVERABLE BAD DEBT POLICY
- RATES POLICY
- TARIFF POLICY
- INDIGENT RELIEF POLICY
- SUPPLY CHAIN MANAGEMENT POLICY & SCM POLICY FOR INFRASTRUCTURE, PROCUREMENT AND DELIVERY MANAGEMENT

e) That the following budget related policies, as approved during previous financial years, remain in force for the 2017/2018 financial year.

- BUDGET POLICY
- ASSET MANAGEMENT POLICY
- BORROWING POLICY
- FUNDING & RESERVE POLICY
- TRANSFER OF FUNDS POLICY
- GRANT POLICY

f) That Council takes cognizance of MFMA Circular 86.

Submitted for Approval

1.3 EXECUTIVE SUMMARY

The state of the economy has an adverse effect on the consumers of the City of Matlosana in the current budget year 2016/17. As a result the municipal revenue and cash flow are expected to remain under pressure. Furthermore the municipality should carefully consider affordability of tariff increases, especially where it relates to domestic consumers while considering the level of services versus the associated cost. Therefore the application of sound financial management principles for the compilation of the City of Matlosana's financial plan is essential and critical to ensure that the municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The City will continue with efforts to enhance revenue and implementing a range of revenue collection strategies to optimize the collection of debt owed by consumers. As per MFMA Circular 82 cost containment measures will also be enhanced to cut expenditure cost.

National Treasury's MFMA circulars No. 51, 54, 55, 58, 66, 67, 70, 72, 75, 79, 85 & 86 were used to guide the compilation of the 2017 – 2020 MTREF.

The main challenges experienced during the compilation of the 2017 - 2020 MTREF can be summarized as follows:

- The ongoing difficulties in the international, national and most importantly the local economy;
- Securing the health of the asset base (especially the revenue generating assets) by increasing spending on repairs and maintenance and renewal of assets;
- Ensuring that drinking water and waste water management meets the required quality standards at all times;
- The need to reprioritise projects and high expenditure rate within the existing resource envelope given the cash flow realities and declining cash position of the municipality;
- The increased cost of bulk water and electricity (due to tariff increases from Midvaal and Eskom), which is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable – as there will be a point where services will no longer be affordable;
- A growing debtor's book as well as the remaining outstanding creditors, especially for bulk services;
- Wage increases for municipal staff that continues to exceed consumer inflation, as well as the need to fill critical vacancies with limited resources;
- The declining liquidity ratio due to budgeted deficit of financial performance from 2015/16, 2016/17 and over 2017/18 MTREF.

The following budget principles and guidelines directly informed the compilation of the 2017/18 MTREF:

- The 2016/17 adjustment budget informed the preparation of the 2017/18 budget
- Tariff and property rate increases should be affordable and should generally not exceed inflation as measured by the CPI, currently forecast at 6%. Price increases in the inputs of services that are beyond the control of Council are for instance the cost of bulk water and electricity. Furthermore tariffs need to remain or move towards being cost reflective; and should take into account the need to address infrastructure backlogs.
- The cost containment measures that must be implemented to eliminate waste, reprioritise spending and ensure savings on six focus areas namely, consultancy fees,

no credit cards, travel and related costs, advertising, catering and event costs as well as costs for accommodation. Municipalities were strongly urged to take note of the cost containment measures as approved by Cabinet and align their budgeting policies to these guidelines to the maximum extent possible.

There will be no additional budget allocated by national and provincial government for funds unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazette as required by the Division of Revenue Act.

In view of the aforementioned; the following table is a consolidated overview of the proposed 2017/18 Medium-term Revenue and Expenditure Framework:

Table 1 Consolidated Overview of the 2017/18 MTREF

	Adjusted Budget 2016/2017	Budget Year 2017/2018	Budget Year +1 2018/2019	Budget Year+2 2019/2020
	R '000	R '000	R '000	R '000
Total Operating Revenue	-2 550 572	-2 955 774	-3 176 785	-3 365 762
Total Operating Expenditure	2 853 431	3 277 018	3 457 403	3 634 820
Total Capital	122 646	173 747	134 636	139 867
Surplus/(Deficit) for the year after Capital contribution	(180 212)	(147 496)	(146 281)	(129 191)

Total operating revenue will increase by R 445 million for the 2017/18 financial year when compared to the 2016/17 Adjustment Budget.

Total operating expenditure for the 2017/18 financial year has been appropriated at R 3.3 billion and translates into a deficit budget after capital transfers of R 147.5 million. When compared to the 2017/18 budget; operational expenditure grew by R 423.5 million.

The capital budget of R 213.7 million for 2017/18 is more than the R 173.9 million for 2016/17. The bulk of the capital programs will be funded from Government grants and transfers. It is the municipality's intention to source funding through borrowings to the amount of R 30 million for replacement of the vehicle fleet. Provision was also made for R 10 million Council funded capital in the coming financial year.

1.4 OPERATING REVENUE FRAMEWORK

For the City of Matlosana to continue improving the quality of services to its citizens it needs to generate the required revenue. In these tough economic conditions strong revenue management is fundamental to the financial sustainability of any municipality. The reality is that we are faced with development backlogs, unemployment, poverty and old infrastructure. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

The revenue base for the City for other main tariffs excluding electricity and water have increased by 6 per cent.

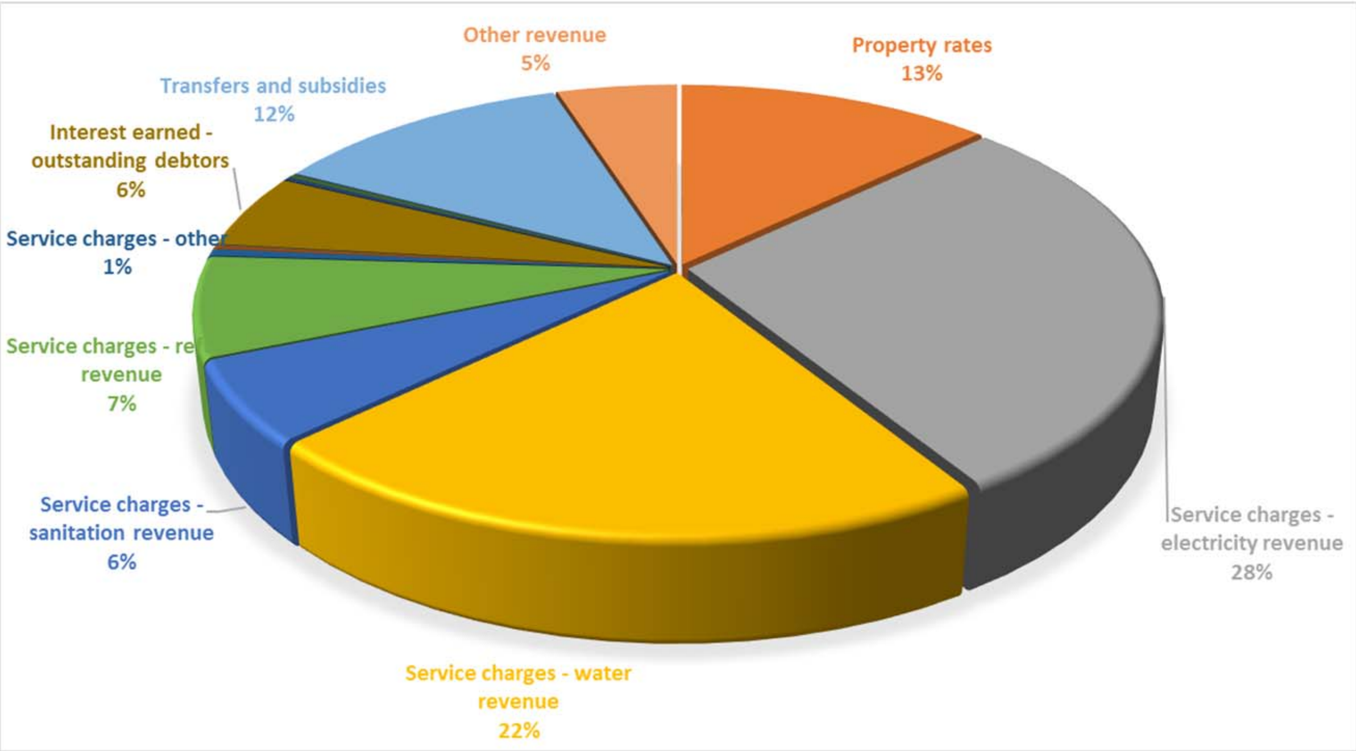
The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macroeconomic policy;
- Growth in the City and continued economic development;
- Efficient revenue management which aims to ensure maximum annual collection rate for property rates and other key service charges;
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa.
- Achievement of full cost recovery of specific user charges especially in relation to trading services;
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service;
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act; 2004 (Act 6 of 2004) (MPRA) as amended.
- Increased ability to extend new services and recover costs.
- The municipality's Indigent Policy and rendering of free basic services.
- Enforcement of the credit control and debt collection policy

The following is a summary of the 2016 - 2019 MTREF (Classified by main revenue source):

Table 2 Summary of revenue classified by main revenue source.

NW403 City Of Matlosana - Table A4 Consolidated Budgeted Financial Performance (revenue and expenditure)				
Description	Ref	2017/18 Medium Term Revenue & Expenditure Framework		
R thousand	1	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
Revenue By Source				
Property rates	2	378,837	400,430	422,854
Service charges - electricity revenue	2	838,331	923,111	974,805
Service charges - water revenue	2	639,296	671,510	709,115
Service charges - sanitation revenue	2	173,694	185,232	195,605
Service charges - refuse revenue	2	215,011	227,255	239,981
Service charges - other		15,000	15,855	16,743
Rental of facilities and equipment		6,587	6,962	7,352
Interest earned - external investments		2,500	2,643	2,790
Interest earned - outstanding debtors		161,884	171,112	180,694
Fines, penalties and forfeits		7,452	7,889	8,331
Licences and permits		7,529	8,668	9,162
Transfers and subsidies		364,262	402,121	436,025
Other revenue	2	145,392	153,697	162,304
Total Revenue (excluding capital transfers and contributions)		2,955,774	3,176,485	3,365,762



In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus/deficit.

Revenue generated from rates and service charges forms a significant percentage of the revenue basket for the City. Rates and service charges revenue comprise 76 % of the total revenue mix in 2017/18. The above table includes revenue foregone arising from discounts and rebates associated with the tariff policies of the Municipality.

Property rates is the third largest revenue source totaling 13 % and will increase to R 378.8 million.

The fourth largest source (besides other service charges) is transfer recognised-operational and fourth largest is 'other revenue' which consists of various items such as income received from agency fees, building plan fees, connection fees, cemetery fees and advertisement fees. Departments have been urged to review the tariffs of these items on an annual basis to ensure they are cost reflective and market related.

Operating grants and transfers totaled R 364.2 million in the 2017/2018 financial year. Fiscal constraints mean that transfers to municipalities will grow more slowly in the period ahead than in the past.

User / Levied Charges
User and levied charges increase because of the increase in consumption by NERSA of electricity by 1.88% on a sliding scale and the increase in water consumption tariffs by 9%. It will also increase as a result of the higher provision for Free Basic Services.

Fines
Fines amount to R 7.4 million and will increase due to the expected increase in traffic and spot fines.

Licenses and Permits
Will increase to R 7.5 million or 5% for 2017/2018.

Other Revenue
Will decrease with 2 % and the budget is expected to be more realistic.

The following table gives a breakdown of the various operating grants and subsidies allocated to the municipality over the medium term:

Table 3 Operating Transfers and Grant Receipts.

NW403 City Of Matlosana - Supporting Table SA18 Transfers and grant receipts

Description	2017/18 Medium Term Revenue & Expenditure Framework		
R thousand	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
RECEIPTS:			
-			
Operating Transfers and Grants			
National Government:	358,768	396,206	429,770
Local Government Equitable Share	354,377	393,806	427,110
Finance Management	2,145		
EPWP Incentive	2,246	2,400	2,660
Other transfers/grants [insert description]	–	–	–
Provincial Government:	1,200	1,300	1,373
Sport and Recreation	1,200	1,300	1,373
Sport and Recreation			
Other transfers/grants [insert description]			
District Municipality:	–	–	–
[insert description]			
Other grant providers:	–	–	–
[insert description]			
Total Operating Transfers and Grants	359,968	397,506	431,143
Capital Transfers and Grants			
National Government:	178,041	139,251	144,749
Municipal Infrastructure Grant (MIG)	89,041	94,251	99,749
Neighbourhood Development Partnership	75,000	35,000	35,000
Inep	14,000	10,000	10,000
Provincial Government:	–	–	–
Other capital transfers/grants [insert description]			
District Municipality:	–	–	–
[insert description]			
Other grant providers:	–	–	–
[insert description]			
Total Capital Transfers and Grants	178,041	139,251	144,749
TOTAL RECEIPTS OF TRANSFERS & GRANTS	538,009	536,757	575,892

Tariff-setting is a pivotal and strategic part of the compilation of any budget. When rates, tariffs and other charges were revised, local economic conditions, salary and wage increases, other input costs of services provided by the municipality and the affordability of services were taken into account to ensure the financial sustainability of the City.

National Treasury continues to encourage municipalities to keep increases in rates, tariffs and other charges below the 6.3% inflation forecast for 2017/2018. Excessive increases are likely to be counterproductive, resulting in higher levels of non-payment. Municipalities are required to justify in their budget documentation all increases in excess of the 6 per cent upper boundary of the South African Reserve Bank's inflation target.
The percentage increase of Midvaal Water's bulk tariff is far beyond the mentioned inflation target. Bulk tariff increases are determined by external agencies such as the National Electricity Regulator of South Africa. The impact it has on the municipality's electricity tariffs is largely beyond the control of the City. Discounting the impact of these price increases in lower consumer tariffs will erode the City's future financial position and viability.

It must be emphasised that the consumer price index; as measured by CPI, is not a good measure of the cost increases of goods and services relevant to municipalities. The basket of goods and services utilised for the calculation of the CPI consist of items like food, petrol and medical services, whereas items such as the cost of remuneration, bulk purchases of electricity and water, and fuel inform the cost drivers of municipalities. The current challenge facing the City is managing the gap between cost drivers and tariffs levied, as any shortfall must be made up by either operational gains or service level reductions. Within this framework, the City has undertaken the tariff setting process relating to service charges as follows.

1.4.1 Property Rates

Property rates cover the cost of the provision of general services. Determining a effective property rate tariff is therefore an integral part of the municipality's budgeting process.

The municipality may award a 100 per cent grant-in-aid on the assessment rates of rateable properties of certain classes such as registered welfare organisations, institutions or organisations performing charitable work, sports grounds used for purposes of amateur sport. The owner of such a property must apply to the Chief Financial Officer on the prescribed form for such a grant.

National Treasury's MFMA Circular No. 51 deals, inter alia with the implementation of the Municipal Property Rates Act, with the regulations issued by the Department of Co-operative Governance. The implementation of these regulations was done in the 2010/11 budget process and the Property Rates Policy of the Municipality has been amended accordingly.
The following stipulations in the Property Rates Policy are highlighted:
• The first R15 000 of the market value of a property used for residential purposes is excluded from the rate-able value (Section 17(h) of the MPRA). In addition to this rebate, a further R35 000 reduction on the market value of a property will be granted in terms of the City's own Property Rates Policy;

• 50% rebate will be granted to registered indigents in terms of the Indigent Policy;

• For pensioners, physically and mentally disabled persons, the rebate is granted on a sliding scale basis depending the income category of the registered owners/owner.

- The rate-able property concerned must be occupied only by the applicant and his/her spouse, if any, and by dependants without income;

- The applicant must submit proof of his/her age and identity and, in the case of a physically or mentally handicapped person, proof of certification by a Medical Officer of Health, also proof of the annual income from a social pension; and

The property must be categorized as residential.

1.4.2 Sale of Water and Impact on Tariff Increases

South Africa faces similar challenges with regard to water supply as it did with electricity, since demand growth out strips supply. The City of Matlosana is facing the similar dilemma as any municipality in the Country. Consequently, National Treasury urges municipalities to review the level and structure of their water tariffs carefully, with a view to ensure:

- That water tariffs are fully cost-reflective – including the cost of maintenance and renewal of purification plants and water networks; and the cost associated with reticulation expansion;
- That water tariffs are structured to protect basic levels of service and ensure the provision of free water to the poorest of the poor(indigent); and
- That water tariffs are designed to encourage efficient and sustainable consumption (e.g. through increasing block tariffs).

As water distribution losses impacted on the municipalities' ability to provide affordable water to its consumers. One of the main focus areas in the 2017/2018 MTREF will be the curbing of water distribution losses.

Midvaal Water Company will increase its bulk tariffs by 9 percent.
The tariff structure is designed to charge higher levels of consumption at a higher rate.
All registered indigents will again be granted 6 kl water free of charge.

1.4.3 Sale of Electricity and Impact on Tariff Increases

The municipality have budgeted for a proposed electricity tariff increase of between 1.88 percent on electricity consumption and 6 percent on basic charges with effect from 1 July 2017. Increases will be implemented on a sliding scale in accordance with the block tariffs for consumption. This is as per the latest available draft tariff increases from the National Electricity regulator of South Africa.

The increase of electricity tariffs is subject to the approval of bulk tariff increases.
Section 42 of the MFMA requires that bulk price increases charged to municipalities by an organ of state must be tabled by 15 March if they are to be effected at 1 July of the same year, unless the Minister of Finance grants an extension. The Minister of Finance, at the request of the Minister of Public Enterprises granted an extension until 5 April 2017 for the tabling of the Eskom's bulk tariff.

The proposed increase for basic charges on electricity will be 6%, in line with the 6.1% inflation forecast from National Treasury.

The inadequate electricity bulk capacity and the impact of distribution losses remains a challenge for the City.

All registered indigents consumers will be granted 50 Kwh of electricity per month free of charge.

1.4.4 Sanitation and Impact on Tariff Increases

A tariff increase of 6 per cent for sanitation from 1 July 2017 is proposed.
The increase in sanitation tariffs is capped at 6% for 2017/2018 financial year as per guideline from National Treasury. Due to the impact of higher electricity cost on the operation of sewer plants, the municipality will have to consider increasing sanitation tariffs with more than 6%.

1.4.5 Waste Removal and Impact on Tariff Increase

A 6% increase in the waste removal tariffs is proposed from 1 July 2017 to keep the service sustainable.

1.4.6 Overall impact of tariff increases on households.

The table SA14 in Schedule A shows the overall expected impact of the tariff increases on a large and small household, as well as indigent household receiving free basic services.

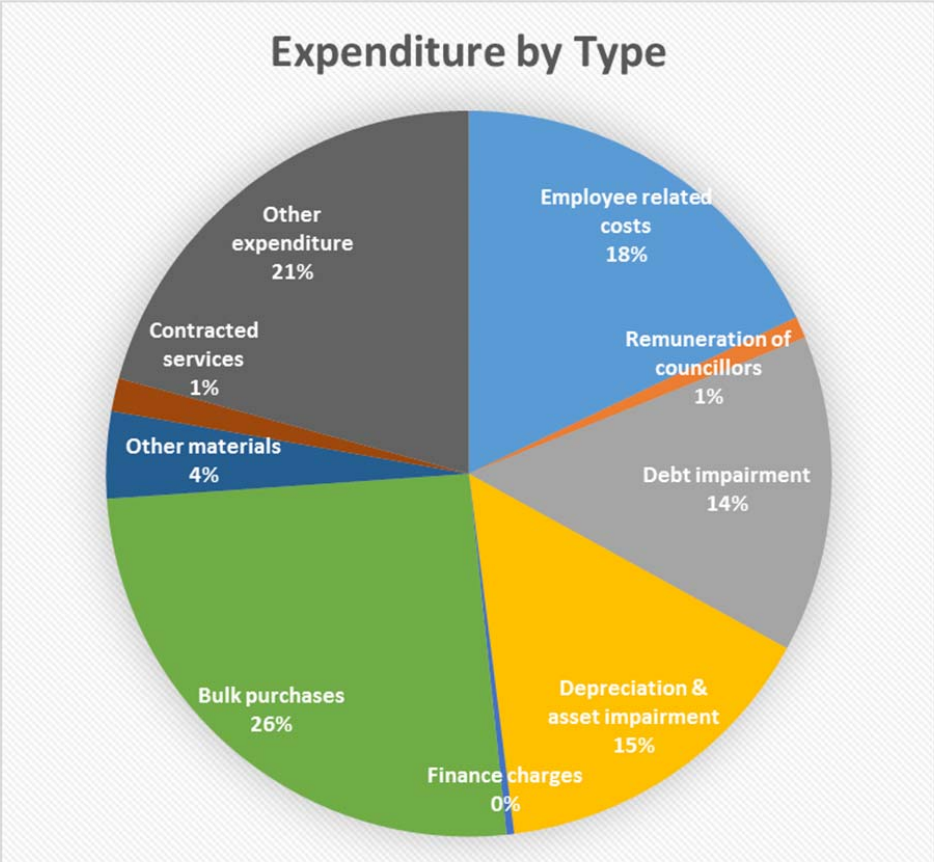
1.5 Operating Expenditure Framework

The City's expenditure framework for the proposed 2017/18 budget MTREF, is informed by the following factors:

- The approval of a non-cash deficit adjustment budget (operating expenditure exceed operating revenue) due to the high provision for non-cash items like provision for Bad Debt and Depreciation.
- The repairs and maintenance backlogs.
- Funding of the budget over the medium-term as informed by section 18 and 19 of MFMA.
- Operational gains and efficiencies will be directed to avoid a deficit.
- Strict adherence to the principle of no project plans no budget. If there is no business plan no funding allocation can be made.
- The process of implementing the new Standard Chart of Accounts in municipalities with effect 1 July 2017.

The following is a summary of the 2017 - 2020 MTREF (Classified by main expenditure source):

NW403 City Of Matlosana - Table A4 Consolidated Budgeted Financial Performance (revenue and expenditure)				
Description	Ref	2017/18 Medium Term Revenue & Expenditure Framework		
R thousand	1	Budget Year 2017/18	Budget Year +1 2018/19	Budget Year +2 2019/20
Expenditure By Type				
Employee related costs	2	586,853	629,684	675,651
Remuneration of councillors		31,657	33,968	36,448
Debt impairment	3	462,621	470,762	471,701
Depreciation & asset impairment	2	492,000	520,044	549,166
Finance charges		11,000	11,000	11,000
Bulk purchases	2	837,563	885,304	934,881
Other materials	8	126,791	134,018	141,523
Contracted services		48,251	50,995	53,851
Other expenditure	4, 5	680,281	721,626	760,598
Loss on disposal of PPE				
Total Expenditure		3,277,018	3,457,403	3,634,821



The budget allocation for employee related costs (including remuneration of councillors) for the 2017/18 financial year totals R 623.7 million, which is 20 % of the total operating expenditure. Based on NT circular 78 guideline salaries will increase by 7.1% in the 2017/18 year.

The provision of debt impairment was determined based on an expected collection rate of 85% and the writing off of interest on Outstanding Debtors. Adherence to the debt collection policy is monitored continuously through the year. The collection of outstanding debt and increasing the payment rate of consumers will be one of the main priorities for the 2017/18 to 2019/20 MTREF.

Provision for depreciation and asset impairment has been informed by the municipality's Asset Management Policy. Depreciation is widely considered a proxy for the measurement of the rate of asset consumption. Budget appropriations in this regard total R 492 million for the 2017/18 financial year and equates to 16 % of the total operating expenditure. The Municipality has fully implemented GRAP 17.

Finance charges consist primarily of the repayment of interest on long-term borrowing (cost of capital). Finance charges amounts to R 14 million. The budget provision in this regard has increased as the municipality intend to take up a loan for the replacement of vehicles.

Bulk purchases are directly informed by the purchases of electricity from Eskom and water from Midvaal. The cost incurred to provide those services have been factored into the budget appropriations and directly inform the revenue provisions.

General consumables comprise of amongst others the purchase of fuel, diesel, materials for maintenance, cleaning materials and chemicals. In line with the City's repairs and maintenance plan this group of expenditure has been prioritised and will increase with R 14.9 million to ensure sustainability of the City's infrastructure.

Professional and special services have been identified as a cost saving area for the City. As part of the compilation of the 2017/18 MTREF, this group of expenditure was critically evaluated and operational efficiencies were enforced. The increase in this group of expenditure relates to the increase in security costs to safe guard councils assets against an increase in theft and vandalism in the current financial year.

Employee Salaries and Allowances
Overall increase of 12%, this is due to the provision to fill vacant positions and the 7.1% as per NT Circular 86.
This includes a provision for the filling of the recently advertised positions and the remuneration of councilors.

Employee Social Contributions
Employees Social Contributions will increase with 7%. This is as a result of the higher increase in medical aid costs and provision to fill vacant positions.

Other Expenditure
General expenditure will increase overall, with the biggest contribution the expenditure on Free Basic Services. Several of the other expenditure votes have not been increased as per decision of Top Management not to increase the whole budget with the 6% inflation increase to curb cost on expenditure. Departments were requested to submit zero based budgets with the necessary proof of evidence. Increases that were not supported by the necessary proof of evidence were also limited. Find below explanations for increases in excess of 10%.

- Commission on Pre-Paid Sales - Is an income generating expenditure that will increase and there is already an significant increase in the income on pre-paid sales.
- Clean Audit Project – Will increase as a result of the provision made for the implementation of mSCOA that is legislated.
- The provision for the expenditure relating to Free Basic Services to the indigents that was previously classified as revenue forgone.

The overall increase for general expenditure will be 49%.

Legal Cost
Will have an 11% increase based on current year projections and inflation. The increase in legal cost is a concern for the management of the municipality.

Bulk purchases
Bulk Purchases increase with more than 3% due to the increases by Eskom to the municipality for electricity and 9% by Midvaal Water for water.

General Expenditure – Contracted Services
Contracted Services have increased with 3.4% due to the increase in security costs.

Repair & Maintenance
Will increase to make provision for the urgent challenges that the water and sewer sections face with maintenance of the infrastructure. Provision is made for the repair and maintenance of the road infrastructure as well.

Contributions
Provision for Bad Debt decreases due to Top Management's decision to enhance debt collection of which the current data cleansing project forms part of. Emphasis will be placed on increasing the debt collection rate.

Debt impairment

The provision for Debt Impairment has been increased compared to the tabled budget on advice from Provincial Treasury during the budget engagement. According to Provincial Treasury the municipality has worked on an unrealistic collection rate. The debt impairment is now calculated on an 83% collection rate. The current collection rate is 82%.

1.5.1 Priority given to Repairs and Maintenance.

Aligned to the priority given to preserving and maintaining the City's current infrastructure, the 2017/18 budget MTREF provided for a significant increase in the area of asset maintenance. This is as a result of the urgent maintenance needed for some of the sewerage plants and a deteriorating water network that have resulted in the municipality losing its blue and green drop status. The maintenance of roads infrastructure is one of the focus areas for 2017/18. According to the Budget and Reporting Regulations; operational repairs and maintenance are not considered a direct expenditure driver but an outcome of certain other expenditures; such as remuneration; purchases of materials and contracted services. Repair and Maintenance at 3% of the operational budget is below the national norm of 8%. One must note that it only includes material, outsourced services, and exclude the salaries and vehicle charges associated with Repair and Maintenance.

1.5.2 Free Basic Services: Basic Social Services Package.

The social package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive the free services the households are required to register in terms of the City's Indigent Policy.

The cost of the social package of the registered indigent households is financed by national government through the local government equitable share grant received in terms of the annual Division of Revenue Act.

1.6 Capital

For 2017/18, an amount of R 173.8 million is being appropriated for the development of infrastructure. R 10 million will be funded from council funds for critical operational capital needs. The balance will be grant funded. Council will also apply for a loan of R 30 million to fund the replacement of vehicles.

1.6 Draft Annual Budget Tables.

PART 2 – SUPPORTING DOCUMENTATION

2.1 Overview of the Annual Budget Process

Section 53 of the MFMA requires the Executive Mayor to provide general political guidance in the budget process and setting of priorities that must guide the preparation of the budget. In addition, Chapter 2 of the Municipal Budget and Reporting Regulations states that the Mayor must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

The Budget Steering Committee of the City of Matlosana consists of the Executive Mayor, MMC's, Municipal Manager and senior officials of the municipality meeting under the chairpersonship of the Executive Mayor.

The primary aim of the Budget Steering Committee is to ensure:

- That the process followed to compile the budget complies with legislation and good budget practices.
- That there is proper alignment between the policy and service delivery priorities set out in the City's IDP and the budget; taking into account the need to protect the financial sustainability of the municipality.
- That the municipality's revenue and tariff setting strategies ensure that the cash resources needed to deliver services are available.
- That the various spending priorities of the different municipal departments are properly evaluated and prioritised in the allocation of resources.

2.1.1 Budget Process Review

In terms of section, 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year, August 2016, a time schedule that sets out the process to revise the IDP and prepare the budget.

The required IDP and budget time schedule were tabled on 30 August 2016.

Key dates applicable to the process were:

- 1 -2 March 2017 - Consultation with departments.
- 30 March 2017 – Tabling of the 2017/18 – 2019/20 MTREF budget to Council.
- 18 April 2017 to – 10 May 2017 Public Participation.
- 11 May 2017 – Policy/Tariff Workshop.
- 31 May 2017 – Council Approves the Final 2017/18 – 2019/20 MTREF budget.
- 14 July 2017 – Submit Final 2017/18 – 2019/20 MTREF budget documents to National Treasury and Provincial Treasury.

2.1.2 IDP and Service Delivery and Budget Implementation Plan

The City's IDP is its principal strategic planning instrument, which directly guides and informs its planning, budget, management and development actions. This framework rolled out into objectives, key performance indicators and targets for implementation, which directly inform the Service Delivery and Budget Implementation Plan.
The process plan included the following key IDP processes and deliverables:

- Registration of community needs;

- Compilation of departmental business plans including key performance indicators and targets;
- Financial planning and budgeting process;
- Public participation process;
- Compilation of the draft SDBIP; and
- The review of the performance management and monitoring processes.

2.1.3 Financial Modelling and Key Planning Drivers

The following key factors and planning strategies have informed the compilation of the 2017/18 MTREF:

- Growth of the City.
- National and Provincial priorities;
- Policy priorities and strategic objectives.
- Asset maintenance.
- Economic climate and trends.
- Performance trends.
- Cash Flow Management Strategy.
- Debtor Payment Levels and collection.
- Loan and Investment possibilities.
- The need for tariff increases versus the ability of the community to pay for services.
- Improved and sustainable service delivery.

Furthermore, the strategic guidance given in National Treasury's MFMA Circular 85 & 86 have been taken into consideration in the planning and prioritisation process.

2.1.4 Community Consultation.

Council undertook an extensive public participation process after the tabling of 2017/18 – 2019/20 MTREF by Council on 30 March 2017. Ten consultation meetings were held around the city from 18 April 2017 until 10 May 2017. As a result of the community consultations the IDP capital projects were re-prioritised to make provision for townships with no project allocation and an amendment to the indigent qualification threshold. (See full report in attached documents)

2.1.5 Engagements with NT, PT & other stakeholders

Various amendments were made to the tabled budget on recommendation of PT who did a full assessment of the city's tabled 2017/18 to 2019/20 MTREF of which the increase in Debt Impairment was the main adjustment. (See full report in attached documents)
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2.2 Overview of Alignment of Annual Budget with IDP

The Constitution mandates local government with the responsibility to exercise local development and cooperative governance. The eradication of imbalances in South African society can only be realised through a credible integrated development planning process.

The IDP provides a five-year strategic programme of action aimed at setting short; medium and long term strategic priorities to create a development platform; which correlates with the term of office of the political incumbents. The plan aligns the resources and the capacity of a municipality to its overall development aims and guides the municipal budget. An IDP is therefore a key instrument which Council use to provide vision, leadership and direction to all

those that have a role to play in the development of a municipal area. The IDP enables the municipality to make the best use of scarce resources and speed up service delivery.

IDP is an approach to planning aimed at involving the municipality and the community to find the best solutions towards sustainable development.

The IDP developed by Council must correlate with National and Provincial intent. It must aim to co-ordinate the work of local and other spheres of government in a coherent plan to improve the quality of life for all the people living in the area. Applied to the City, issues of national and provincial importance should be reflected in the IDP of the City. A clear understanding of such intent is therefore imperative to ensure that the City strategically complies with the key national and provincial priorities.

The national and provincial priorities; policies and strategies of importance include amongst others:

- Green Paper on National Strategic Planning of 2009.
- Government Programme of Action.
- Development Facilitation Act of 1995.
- Provincial Growth and Development Strategy (GGDS).
- National and Provincial spatial development perspectives.
- Relevant sector plans such as transportation; legislation and policy.
- National Key Performance Indicators (NKPIs)
- The National and Provincial Priority Outcome.

2.3 Measurable Performance Objectives and Indicators

Performance Management is a system intended to manage and monitor service delivery progress against identified strategic objectives and priorities. In accordance with legislative requirements and good business practices as informed by National Framework for Managing Programme Performance Information, the City has developed and implemented a performance management system, which is constantly refined as the integrated planning process unfolds. The municipality targets, monitors, assesses and reviews organisational performance, which is currently not directly linked to individual employees' performance.

2.4 Overview of Budget related-policies.

The City's budgeting process is guided and governed by relevant legislation; frameworks; strategies and related policies.

2.4.1 Review of Customer Care; Credit Control and Debt Collection Policies.
This policy was reviewed; among others; in order to achieve a higher collection rate.

2.4.2 Review of Indigent Relief Policy.
The indigent relief policy was reviewed and amendments were made to the indigent qualifying threshold .

2.4.3 Review of Rates Policy
The Rates policy was reviewed to bring it in line with amendments in the property rates act.

2.4.4 Supply Chain Management Policy
The Tariff policy was reviewed to make it more effective.

2.4.5 SCM & Infrastructure Procurement and Delivery Management Policy

This policy was reviewed and the Procurement and Delivery Management guideless have been added as per the MFMA circular.

2.4.5 Irrecoverable Bad Debt Policy
The Irrecoverable Bad Debt Policy was reviewed.

2.4.6 Tariff Policy
The Tariff Policy was reviewed.

2.4.7 Investment & Cash Management Policy
The policy was reviewed.

All the above policies are available on the City's website, www.matlosana.gov.za, as well as the following approved budget related policies.

- Budget Policy
- Asset Management Policy
- Borrowing Management Policy
- Transfer of Funds Policy
- Grants and Funding Policy
- Funding and Reserve Policy

2.5 Overview of Budget Assumptions.

2.5.1 External Factors.

Owing to the economic slowdown impact by the closure of mines in the region due to the low gold price, financial resources are limited due to reduced payment levels by consumers. This has resulted in declining cash inflows, which has necessitated restrained expenditure to ensure that cash outflows remain within the affordability parameters of the City's finances.

2.5.2 General Inflation Outlook and its impact on the municipal activities.

Four key factors have been taken into consideration in the compilation of the 2017 /18 – 2019/20 MTREF.

- National Government macro-economic targets.
- The general inflationary outlook and the impact on City's residents and businesses.
- The impact of municipal cost drivers.
- The increase in prices for bulk electricity and water.

2.5.3 Interest Rates for Borrowing and Investment of Funds.

MFMA specifies that borrowing can only be utilized to fund capital or refinancing borrowing in certain conditions. For simplicity, the 2017/18 MTREF is based on the assumption that all borrowings are undertaken using fixed interest rates for amortisation-style loans requiring both regular principal and interest payments.

2.5.4 Collection Rate for Revenue Services.

The base assumption is that tariff and rates increases will increase at a rate slightly higher than CPI over long term. It is assumed that current economic conditions and relatively controlled inflationary conditions will continue for the forecasted term. For the medium term, inflation is expected to bridge the 6.0% band set by the Reserve Bank. On the longer term, consumer inflation is expected to drop to 5.6% by 2019/20.

2.5.5 Growth or Decline in Tax Base of the Municipality.

Debtors revenue is assumed to increase at a rate that is influenced by the consumer debtors collection rate, tariff/rate pricing, real growth of the City, household formation growth rate and the poor household change rate. The current consumer data cleansing exercise undertaken by the municipality had a positive impact on the consumer revenue base of the municipality.

2.5.6 Salary Increases

The current collective agreement expire at 30 June 2018. National Treasury in circular 86 prescribes a salary increase of 7.1%.

2.5.7 Impact of National, Provincial and Local Policies.

Integration of service delivery between national; provincial and local government is critical to ensure focussed service delivery and in this regard various measures were implemented to align IDPs; provincial and national strategies around priority spatial interventions.

In this regard, the following national priorities form the basis of all integration initiatives:

- Creating Jobs.
- Enhancing Education and Skills Development.
- Improving Health Services.
- Rural Development and Agriculture.
- Fighting Crime and Corruption.
- Infrastructure development.

The focus will be to strengthen the link between policy priorities and expenditure thereby ensuring the achievement of the national, provincial and local objectives.

2.5.8 Ability of the Municipality to Spend and Deliver on Programmes

Due to cash flow constrains it is estimated that the spending rate will be lower on operational expenditure. All grant-funded capital must be spent by the end of the financial year to avoid any fund being withheld by the NT.

2.6 Overview of Budget Funding

Tariff setting plays a major role in ensuring desired levels of revenue. Getting tariffs right assists in the compilation of a credible and funded budget. The City derives most of its operational revenue from the provision of goods and services such as water, electricity, sanitation and solid waste removal, property rates, operating and capital grants from organs of state and other minor charges like building plan fees, licenses and permits etc.

The revenue strategy is a function of key components such as:

- Growth in the City and economic development.
- Revenue Management and Enhancement.
- Achievement of a higher annual collection rate for consumer revenue.
- National Treasury guidelines;
- Electricity tariff increases within the NERSA approval.
- Achievement of full cost recovery of specific user charges.
- Determining tariff escalation rate by establishing/calculating revenue requirements.
- The Property Rates Policy in terms of the MPRA.
- Ability to extend new services and obtain cost recovery levels.

The above principles guide the annual increase in the tariffs charged to the consumers and the ratepayers, aligned to the economic forecasts.

2.6.1 Cash Flow Management

Cash flow management and forecasting is a critical step in determining if the budget is funded over the medium-term. The municipality's cash flow is strictly monitored on a daily basis.

2.6.2 Annual Budgets and SDBIPs – Internal Departments

Water Service Department

The department is primarily responsible for the distribution of potable water within the municipal boundary, which include maintenance of the reticulation network and implementation of the departmental capital programs.

Electricity Service Department

The department is primarily responsible for the distribution for electricity within the municipal boundary; which include maintenance of the distribution network and implementation of the departmental capital programs.

2.7 Legislation Compliance Status

Compliance with the MFMA implementation requirements have been substantially adhered to through the following activities:

2.7.1 In Year Reporting

Reporting to National Treasury in electronic format was complied with on a monthly basis. Section 71 reporting to the Executive Mayor, NT & PT has been complied with, as well as the section 72 & 52 reporting.

2.7.2 Internship Programme

The City of Matlosana is participating in the Municipal Financial Management Internship programme, and has currently employed three interns that still undergoes training in various divisions of the Finance Directorate.
9 of the previous interns engaged since the inception of the programme have been permanently employed by the City of Matlosana.

2.7.3 Budget and Treasury Office

The Budget and Treasury Office have been established in accordance with the MFMA.

2.7.4 Audit Committee

An Audit Committee have been established and is fully functional.

2.7.5 Municipal Public Accounts Committee

The Municipal Public Accounts Committee have been established and is fully functional.

2.7.6 Service Delivery and Implementation Plan

The detailed SDBIP document is at a draft stage and will be finalised and approved.

2.7.7 Annual Report

The Annual Report have been compiled in terms of the MFMA and National Treasury requirements. The Municipal Public Accounts Committee engaged with the community and officials and had tabled their oversight report for the 2015/16 annual report in Council on 31 March 2017. An section 32 Committee were appointed to investigate amongst other Fruitless and Wasteful and Irregular expenditure.

2.8 Municipal Manager’s Quality Certificate